

Message Text

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SUBJ: IMPACT OF HIGHER OIL PRICES ON ECONOMIC DEVELOPMENT IN
ZAIRE

REF: STATE 006381

1. SUMMARY: ZAIRE NOW CONFRONTS SEVERE ECONOMIC DIFFI-
CULTIES CAUSED MOST DIRECTLY BY DEPRESSED COPPER PRICES,
AND ABRUPT CONSTRICTION IN THE FLOW OF FOREIGN CAPITAL AND
COMPLICATIONS ARISING FROM POORLY IMPLEMENTED POLICIES
NATIONALIZING MANY FORIEGN BUSINESSES. HIGHER OIL
PRICES HAVE CONTRIBUTED TO THESE DIFFICULTIES AND HAVE
MADE ZAIRE'S ECONOMIC ADJUSTMENTS PARTICULARLY HARSH.
IN THE LONG RUN, HOWEVER, CONTINUED HIGHER OIL PRICES
MAY BE ADVANTAGEOUS TO ZAIRE WHICH HAS ABUNDANT HYDRO-
ELECTRIC POTENTIAL AND WHICH RECENTLY BECAME AN OIL
PRODUCER. END SUMMARY.

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2. THROUGHOUT 1972 AND 1973 THE ZAIRIAN ECONOMY WAS

FUELED BY EXTRAORDINARILY HIGH COPPER PRICES AND LARGE INFLOWS OF CAPITAL, PARTICULARLY IN THE FORM OF CREDITS TO GOVERNMENT. BEGINNING LATE IN 1973 GOZ UNDERTOOK AMBITIOUS AND, IN MANY CASES, POORLY IMPLEMENTED POLICIES WHICH NATIONALIZED OR OTHERWISE BROUGHT UNDER STATE CONTROL SEVERAL MAJOR SECTORS OF THE ECONOMY. IN 1974 ZAIRE'S ECONOMIC BUBBLE BURST WHEN COPPER PRICES BEGAN TO FALL DRAMATICALLY IN THE SECOND QUARTER. EXPORT RECEIPTS FOR THE YEAR NEVERTHELESS REMAINED STRONG AS A RESULT OF THE STRONG SHOWING IN THE FIRST HALF OF THE YEAR. ZAIRE'S BALANCE OF TRADE WAS IN SURPLUS IN 1974 DESPITE AN INCREASE OF ABOUT \$100 MILLION IN PETROLEUM IMPORTS. ONLY IN 1975 DID EXPORT RECEIPTS COME CRASHING DOWN, LEADING TO A MUCH LARGER BALANCE OF TRADE DEFICIT. THE FOLLOWING TABLE GIVES FIGURES IN MILLIONS OF US\$:

	1972	1973	1974	1975
EXPORTS	684	1028	1333	872
(COPPER)	(407)	(652)	(941)	(598)
IMPORTS	871	1099	1264	1120
(OIL IMPORTS)	(38)	(48)	(165)	(170)
(NON-OIL IMPORTS)	(833)	(1044)	(1099)	(950)
BALANCE OF TRADE	-187	-71	"69	-248

" INDICATES PLUS

(NOTE: STATISTICAL DISCREPANCIES STEMMING FROM DIFFERING DEFINITIONS OF "PETROLEUM PRODUCTS" AND DATA GAPS ARISING AFTER THE 1973 NATIONALIZATION OF THE PETROLEUM INDUSTRY MAKE COMPARISON BETWEEN THE 1973 AND 1974 IMPORT FIGURES SOMEWHAT DIFFICULT. THE BANK OF ZAIRE, USING THE MORE RESTRICTIVE CATEGORY OF "ENERGY IMPORTS", HAS PUBLISHED AN ESTIMATE OF 1974 OIL IMPORTS AT \$100 MILLION. EMBASSY'S ESTIMATE OF \$165 REFLECTS BROADER DEFINITION OF "PETROLEUM PRODUCTS" AND MORE RECENT DATA ON THE QUANTITIES OF IMPORTS. USING A BROADER DEFINITION ANNUAL CRUDE OIL IMPORT REQUIREMENTS FOR LOCAL REFINERY RUN AT ABOUT 750,000 TONS PER YEAR WITH REQUIREMENTS FOR IMPORTS OF ADDITIONAL REFINED PRODUCTS RUNNING AT ABOUT HALF THAT LEVEL.)

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3. THE MOST DRAMATIC FACTOR IN ZAIRE'S RAPID ECONOMIC DECLINE IN 1974 WAS ON THE CAPITAL ACCOUNT. IN RECENT YEARS ZAIRE HAS INCREASINGLY PAID FOR ITS IMPORTS THROUGH FOREIGN FINANCING. BY 1973 30 PERCENT OF TOTAL IMPORTS WERE FOREIGN FINANCED. THIS RELIANCE ON FOREIGN FINANCING CREATED A GROWING DEBT BURDEN AS EVIDENCED BY THE FOLLOWING FIGURES ON CAPITAL FLOWS GIVEN IN MILLIONS OF US\$:

	1972	1973	1974
CAPITAL OUTFLOWS	86	192	251
CAPITAL INFLOWS	401	429	251
(TO BUSINESS)	(303)	(183)	(212)
(TO GOVERNMENT)	(98)	(246)	(40)

IN 1974 TOTAL CAPITAL INFLOWS, AND PARTICULARLY THOSE TO GOVERNMENT, DECREASED DRAMATICALLY. BETWEEN 1972 AND 1974 ZAIRE'S CAPITAL ACCOUNT MOVED FROM A SURPLUS OF \$315 MILLION TO A SLIGHT DEFICIT. IN 1975 ZAIRE SIGNED SHORT TERM DEBT RESCHEDULING AGREEMENTS WITH THREE MAJOR CREDITORS (BELGIUM, FRANCE AND ITALY) BUT BECAUSE INCREASINGLY DELINQUENT IN SERVICING ITS DEBT OBLIGATIONS, ALTHOUGH THERE WAS NOT A FORMAL DEFAULT OF ANY LOAN.

4. FACED WITH EXPANDING BUDGETARY COMMITMENTS AND DECREASED COPPER REVENUES AND FOREIGN CREDITS, GOZ TURNED TO THE CENTRAL BANK FOR A MASSIVE, INFLATIONARY CREATION OF CREDIT. GOZ BORROWINGS FROM THE CENTRAL BANK ROSE FROM \$63 MILLION IN 1973 TO \$282 MILLION IN 1974. AT THE SAME TIME THE BANKING SYSTEM ALSO INCREASED CREDIT TO BUSINESS FROM \$276 MILLION IN 1973 TO \$469 MILLION IN 1974. MUCH OF THIS INCREASED CREDIT WENT TO RECENTLY NATIONALIZED INDUSTRIES AND WAS ON THE WHOLE NOT MATCHED BY AN APPRECIABLE INCREASE IN PRODUCTION. THE INCREASED MONEY SUPPLY (FROM \$575 IN 1973 TO \$779 IN 1974) FUELED A DEMAND FOR IMPORTS THAT RESULTED IN A RAPID DRAW DOWN OF FOREIGN EXCHANGE RESERVES FROM A PEAK OF OVER \$250 MILLION IN MID 1974 TO ABOUT \$30 MILLION IN APRIL OF 1975. THE VIRTUAL EXHAUSTION OF RESERVES FORCED ZAIRE TO LIVE ON A HAND TO MOUTH BASIS. RECURRENT GOZ OPERATIONS WERE MAINTAINED, BUT ORDINARY DEVELOPMENT EXPENDITURES WERE SLASHED FROM \$400 MILLION LIMITED OFFICIAL USE

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IN 1974 TO \$68 MILLION FOR THE FIRST HALF OF 1975.

5. HIGHER OIL PRICES HAVE MADE ZAIRE'S ADJUSTMENT TO ITS ECONOMIC DIFFICULTIES MUCH HARSHER THAN OTHERWISE WOULD HAVE BEEN THE CASE. A COMPARISON BETWEEN 1973 AND 1975 SHOWS THAT WHILE NON-OIL IMPORTS FELL BY \$46 MILLION, OIL IMPORTS INCREASED BY \$122 MILLION. IN THE ABSENCE OF HIGHER PRICES, ZAIRE WOULD NOT HAVE BEEN FORCED TO SO STRINGENTLY CUT IMPORTS. ALTERNATIVELY, FOREIGN EXCHANGE SAVED BY LOWER OIL PRICES COULD HAVE BEEN USED TO PAY OFF FOREIGN OBLIGATIONS IN A MORE TIMELY MANNER. HIGHER OIL PRICES PROBABLY HAVE HAD AN EVEN GREATER ADVERSE EFFECT ON ZAIRE TO THE EXTENT THAT THEY HAVE BEEN PARTIALLY RESPONSIBLE FOR THE DIFFICULTIES OF THE INDUSTRIALIZED COUNTRIES, WHICH IN TURN HAVE CON-

TRIBUTED TO THE DECLINE OF COPPER PRICES AND THE SHORTAGE
OF CAPITAL TO BE LENT TO LDC'S.

6. IN LONGER RUN, HIGHER OIL PRICES MAY BE IN ZAIRE'S
INTEREST. ZAIRE HAS, WITHIN THE LAST TWO MONTHS, BECOME
A PRODUCER OF CRUDE OIL WITH 1976 PRODUCTION ANTICIPATED
TO BE ABOUT 25,000 BARRELS A DAY, OR ROUGHLY COMPARABLE
IN VOLUME TO ITS IMPORT REQUIREMENTS. HOWEVER, AMOR-
TIZATION AND OTHER CHARGES INSURE THAT EXPENDITURES FOR
PETROLEUM WILL GREATLY EXCEED REVENUES FOR AT LEAST THE
NEXT SEVERAL YEARS. EXPLORATION IS CONTINUING; PROJEC-
TIONS SUGGEST THAT ZAIRE COULD BECOME A NET EXPORTER OF
PETROLEUM PRODUCTS AND/OR CRUDE WITHIN A FEW YEARS. HIGH WORLDWIDE
ENERGY PRICES ALSO ENHANCE ATTRACTIVENESS OF ZAIRE'S
IMMENSE HYDRO-ELECTRIC POTENTIAL. HYDRO POWER ALREADY
ACCOUNTS FOR 98 PERCENT OF ELECTRICITY GENERATED IN
ZAIRE. ZAIRIAN POLICY MAKERS SEEM TO FOCUS MORE ON
LONG RUN BENEFITS RATHER THAN SHORT-RUN PROBLEMS POSED
BY HIGH OIL PRICES. IN HIS NOVEMBER 25, 1975 SPEECH
DISCUSSING ZAIRE'S ECONOMIC DIFFICULTIES AND ANNOUNCING
THE NEED FOR ECONOMIC STABILIZATION, PRESIDENT MOBUTU
DID NOT DISCUSS HIGHER OIL PRICES BUT DID SPEAK AT LENGTH
OF ZAIRE'S POTENTIAL HYDRO POWER AS AN ASSET FOR ALL OF
CENTRAL AFRICA. THE REPORT OF A GOVERNMENT STABILIZATION
COMMITTEE CHARGED WITH INVESTIGATING THE CAUSES OF
ZAIRE'S ECONOMIC DIFFICULTIES DID NOT BLAME HIGH OIL
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PRICES BUT FOCUSED ON LOW COPPER PRICES, SLUMPING PRODUCTION,
PARTICULARLY IN AGRICULTURE AND THE NATIONALIZED
INDUSTRIES, AND LARGE CENTRAL BANK CREDITS TO THE
ECONOMY AS BEING THE PRINCIPAL FACTORS RESPONSIBLE FOR
ZAIRE'S ECONOMIC DIFFICULTIES.
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